

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

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AMEMBASSY JAKARTA

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E.O. 11652: N/A

TAGS: EMIN, TH

SUBJ: PETROLEUM PRICE "FREEZE": RTG-GOI PETROLEUM DISCUSSIONS

REF: A) BANGKOK 1428 B) BANGKOK 26627

1. SUMMARY: BANGKOK PRESS HAS IN RECENT DAYS REPORTED IN DETAIL ON ALLEGED RTG PLANS TO: 1) FREEZE RETAIL POL PRICES AT EXISTING LEVELS FOR TIME BEING; 2) PURCHASE LARGE AMOUNT OF CRUDE OIL FROM INDONESIA AT SO CALLED "FRIENDSHIP" PRICE, AND THUS OBLIVIATE NEED FOR DOMESTIC RETAIL PRICE INCREASES OVER LONG TERM. HOWEVER, FACTS ARE, ACCORDING RELIABLE U.S. OIL COMPANY EXECUTIVES, 1) THAT GOVERNMENT HAS EVOLVED COMPLICATED FORMULA UNDER WHICH RETAIL PRICES WILL REMAIN CONSTANT WHILE OCTOBER OPEC PRICE INCREASE, WHICH HAS ALREADY BEEN PASSED FROM REFINERS TO OIL MARKETING FIRMS, WILL BE ABSORBED IN PART BY MARKETING COMPANIES, IN PART BY GOVERNMENT (THROUGH REDUCTION IN TAXES ON MARKETING FIRMS) AND IN PART BY RETAIL DEALERS THROUGHOUT COUNTRY, AN OBVIOUS POTENTIAL FLASH-POINT; AND 2) ALLEGED "FRIENDSHIP" PRICE FOR INDONESIAN CRUDE MAY BE HIGHER THAN PRICE CURRENTLY BEING PAID FOR PERSIAN

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GULF CRUDE. END SUMMARY.

2. PRESS HAS SPECULATED THAT DOMESTIC PRICE FREEZE WILL BE IMPOSED ONLY UNTIL AFTER APRIL 4 ELECTIONS. HOWEVER, THAT EXPLANATION APPEARS TOO SIMPLISTIC, AND IT IS POSSIBLE THAT SHIFT IN POWER RELATIONSHIPS WITHIN GOVERNMENT MAY ACCOUNT FOR WHAT IS CLEARLY A RECENT SHIFT IN RTG POLICY WITH REGARD TO POL PRICING. ISSUE GOES BACK TO DECEMBER WHEN RTG AUTHORIZED REFINERIES TO PASS OCTOBER OPEC PRICE INCREASE ALONG TO MARKETING FIRMS (REF B). AT THAT TIME, ACCORDING INDUSTRY SOURCES, DEP PRIMIN PRAMAN TOLD MARKETING FIRMS RTG WOULD WITHOUT FAIL ON JAN 2 INCREASE DOMESTIC RETAIL PRICES, (WHICH ARE CONTROLLED BY GOVERNMENT) TO COMPENSATE FOR PRICE INCREASES AT REFINERY. ON JAN 4 PRAMAN SUMMONED OIL COMPANY HEADS AND PROMISED THAT RETAIL PRICES WOULD ON FEB 1 BE INCREASED ENOUGH TO COVER ABOUT 90 PERCENT OF OPEC PRICE INCREASE PROVIDED MARKETING FIRMS WOULD 1) FOR MONTH OF JANUARY ACCEPT LOSSES FLOWING FROM EX-REFINERY PRICE INCREASE AND 2) AGREE TO ABSORB FRACTION OF EX-REFINERY INCREASE AFTER FEB 1. SUBSEQUENTLY, ON EVENING OF JAN 24 (A SATURDAY) PRAMAN, IN HIS CAPACITY AS CHAIRMAN OF THE OIL POLICY COMMITTEE, SUMMONED OIL COMPANY HEADS TO A COMMITTEE MEETING ATTENDED BY FINANCE MINISTER BUNCHU, INDUSTRY MINISTER SURIN, AND OTHERS. AT THIS MEETING, ACCORDING TO INDUSTRY SOURCES, FINANCE MINISTER BUNCHU WAS CLEARLY IN CHARGE, AND IT WAS HE WHO ANNOUNCED RTG HAD DECIDED NOT RPT NOT TO INCREASE RETAIL POL PRICES (AS PLEDGED BY PRAMAN). INSTEAD, MARKETING FIRMS WERE TO ABSORB ABOUT 15 PERCENT OF THE OPEC PRICE INCREASE, THE GOVERNMENT WOULD ABSORB ABOUT 70 PERCENT THROUGH A REDUCTION IN TAXATION, AND 15 PERCENT WOULD BE PASSED ON TO INDIVIDUAL RETAILERS, EFFECTIVE FEB 1.

3. ESSO OFFICIALS ARE OPTIMISTIC THIS SCHEME WILL WORK, AT LEAST OUTWARDLY, BUT CALTEX MANAGING DIRECTOR IS LEARY OF PROPOSAL FOR NUMBER OF REASONS. FIRST, HE ENTERTAINS DOUBTS AS TO WHETHER RTG WILL IN FACT PROVIDE RELIEF FROM TAXATION TO COMPENSATE FOR PRICE INCREASE. SECONDLY, HE FEARS THAT, IN EVENT TAXES ARE REDUCED, GOVERNMENT WOULD BUCKLE SHOULD MOVE COME UNDER PRESSURE FROM STUDENT CLIQUES. IN ADDITION, CALTEX EXECUTIVE BELIEVES RETAILERS MAY WELL

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CLOSE UP SERVICE STATIONS WHEN IT COMES APPARENT PROFIT MARGINS ARE TO BE SQUEEZED, AND THAT GOVERNMENT WOULD BACK DOWN, LEAVING OIL FIRMS EXPOSED. HOWEVER, MARKETING FIRMS ARE ANXIOUS TO HALT CURRENT EARNINGS LOSSES (ESTIMATED AT U.S. \$15,000 DAILY FOR CALTEX, \$30,000 FOR ESSO) STEMMING FROM EX-REFINERY PRICE INCREASES, AND ARE PREPARED TO GO ALONG WITH GOVERNMENT PROPOSAL IN HOPES THEY CAN RIDE OUT ANTICIPATED STORM.

4. IN REGARD A CRUDE OIL PURCHASES, WEEKEND NEWSPAPERS REPORTED VISIT OF INDONESIAN GOVERNMENT OFFICIAL WIDJOJO NITISASTRO, WHO MET WITH PRIMIN KHUKRIT AND FORNMIN CHATCHAI JAN 24, AND LINKED MR. WIDJOJO'S VISIT TO ALLEGED GOI PLEDGE TO SELL "UNLIMITED SUPPLIES TO THAILAND AT A "FRIENDSHIP PRICE", IF THE KIND OF CRUDE OIL THAILAND WANTS IS AVAILABLE IN LARGE QUANTITY." ACCORDING TO U.S. INDUSTRY SOURCES, RTG-GOI DELEGATIONS HAVE DISCUSSED RTG PURCHASE OF CRUDE AT ABOUT U.S. \$11.00 PER BARREL AS CONTRASTED WITH EXISTING PRICE HERE OF U.S. \$10.46 PER BARREL FOR PERSIAN GULF CRUDE. ALLEGED PRICE, THEY SAY, COUPLED WITH FACT THAT THAI REFINERIES HAVE NO KNOWLEDGE OF TYPES OF PRODUCTS WHICH COULD BE PRODUCED FROM INDONESIAN CRUDE, SIMPLY DOES NOT MAKE GOOD COMMERCIAL SENSE AND ILLUSTRATES INCOMPETENCE ON PART RTG OFFICIALS.

5. ALSO ON CRUDE OIL FRONT, "NATION" JAN 27 ANNOUNCED IMPENDING DEPARTURE OF PRIVATE OIL MISSION" TO NEGOTIATE WITH BROKER IN GENEVA FOR 50 MILLION BARRELS OF LIGHT ARABIAN CRUDE AT A PRICE TEN PERCENT BELOW POSTED PRICE. U.S. INDUSTRY SOURCES DISCOUNTED REPORT AS "POLITICAL PROPAGANDA", ASSERTING MISSION WAS ORGANIZED AND WOULD BE LED BY FONMIN CHATCHAI, AND CONTENDING THAT IF CONTRACT WERE TO BE SIGNED (WHICH THEY DOUBT) OIL WILL IN FACT NEVER BE DELIVERED.

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